

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA

Alexandria Division

UNITED STATES OF AMERICA

v.

JOHN HOULDSWORTH

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Criminal No. 1:05CR248

AGREED STATEMENT OF FACTS

The United States and the defendant, John Houldsworth, ("Houldsworth") agree that had this matter proceeded to trial, the United States would have proven all of the following facts beyond a reasonable doubt:

Houldsworth, a resident of Ireland and a Chartered Accountant, was employed until approximately June, 2001, as the Chief Executive Officer of Cologne Re Dublin ("CRD"), a subsidiary of Cologne Re, which was a subsidiary of General Re Corporation ("Gen Re") of Stamford, Connecticut. Additionally, Houldsworth held the office of Chief Underwriter of another Gen Re business unit called Alternative Solutions from approximately 1998 until approximately 2004. Gen Re is a subsidiary of Berkshire Hathaway, Inc. ("Berkshire"), a publicly traded company. As such, CRD's financial results were consolidated with Berkshire's financial results. One of Gen Re's largest clients was American International Group, Inc. ("AIG"), a publicly traded insurance and financial services company. National Union Fire Insurance Company of Pittsburgh, Pennsylvania ("NUFIC") and Hartford Steam Boiler Inspection and Insurance Company ("HSB") were both wholly-owned member companies of AIG whose financial results were consolidated with AIG's financial results.

Between October 2000 and December 2001, Houldsworth and others at Gen Re and AIG agreed to and did aid and abet AIG in reporting \$500 million of fraudulently inflated reserves and related entries in financial reports filed with the U.S. Securities and Exchange Commission ("SEC") and disseminated to investors throughout the world.

In mid-November 2000, Houldsworth was told that AIG's Chief Executive Officer ("CEO") had called Gen Re's CEO and asked if Gen Re could lend AIG up to \$500 million in reserves on a short-term basis through a loss portfolio transfer without transferring any real risk of loss to AIG. Houldsworth was told that AIG had decreased – or released – reserves in order to increase its publicly reported financial results for the prior quarter and was soliciting this transaction as a means of hiding reserve releases. Houldsworth and others knew that most of the CRD loss portfolios being considered for the proposed transaction were already reinsured and that losses in those portfolios should not exceed the amounts available to pay the associated claims. Thus, CRD already accounted for those loss portfolios as money owed by CRD to those being insured by CRD (i.e., as deposits) not as reinsurance reserves. Houldsworth also knew that AIG wanted to account for those loss portfolios as reinsurance on which AIG had assumed risk and on which AIG could make or lose money (i.e., as reserves). Houldsworth and others discussed how the Gen Re side of the transaction should be executed by a non-United States entity so that it would not be apparent that Gen Re had ceded (i.e., given) a large loss portfolio to AIG and that the counter-parties to the transaction were utilizing different accounting treatments. Houldsworth and others were reminded repeatedly that the proposed transaction was highly confidential and they were instructed by Gen Re's CEO to "keep the circle of people involved in this as tight as possible."

Houldsworth was directed and agreed to structure a transaction whereby AIG was able to book approximately \$500 million in reinsurance risk reserves without actually assuming any “real” risk. Houldsworth and others knew that AIG could not properly report additional reserves from this transaction. Indeed, Houldsworth asked Gen Re's Chief Financial Officer (“CFO”) whether it would be problematic if anyone ever determined that CRD had accounted for the transaction differently from AIG and the CFO responded: “we told AIG that there would not be symmetrical accounting here . . . we told them that was one of the aspects of the deal they had to digest.”

The specific means employed by Houldsworth and others to aid and abet AIG's fraudulent financial reporting included: (i) structuring a series of sham transactions which enabled AIG to report a total of \$500 million in phony reserves, in \$250 million increments, in periodic filings with the SEC during the fourth quarter of 2000 and the first quarter of 2001; (ii) creating false records that made it appear AIG was being paid \$10 million for assuming CRD's reinsurance risk when in reality AIG was not being paid but was paying Gen Re \$5 million for executing this sham transaction; and (iii) creating false records to make it appear that CRD had asked AIG to reinsure CRD's risk, when, in fact, AIG had asked Gen Re to participate in this transaction and AIG was not reinsuring any risk because there was no real risk.

Houldsworth and others knew that AIG would not assume any real risk as a result of these transactions, but the contracts they utilized for the sham “reserve” transactions made it appear that AIG, through NUFIC, had assumed reinsurance risk because, under the terms of the contracts as drafted by Houldsworth and others, NUFIC was ceded (i.e., given) a total of \$500 million in premiums in exchange for reinsuring \$600 million in potential losses. The contracts

also falsely provided that CRD would pay NUFIC a \$10 million loss transfer payment as part of the consideration for NUFIC reinsuring CRD's risk. However, the contracts purposefully omitted that AIG had secretly agreed to make Gen Re whole for that \$10 million loss transfer payment and also to pay Gen Re a separate \$5 million fee for participating in this scheme. The true payment terms were intentionally omitted from the transaction documents in order to mislead AIG's auditors, who might otherwise question why AIG would pay to assume another party's risk. In addition, Gen Re's CFO told Houldsworth and others that AIG was going to honor the true payment terms and pay Gen Re by enriching a separate contract.

During a telephone call in early December, 2000, Houldsworth and others discussed whether AIG wanted an offer letter from CRD as part of a "paper trail" to make it appear that CRD had asked AIG to assume risk. Houldsworth drafted and sent AIG a false offer letter in mid-December, approximately six weeks after AIG's CEO asked Gen Re's CEO to complete this transaction. At the end of December, 2000, Houldsworth received an email from an AIG executive confirming that AIG wanted to implement the first part (\$250 million) of the sham reserve transaction and, at the end of August, 2001, that same AIG executive sent Houldsworth a signed contract for that half of the transaction, effective December 1, 2000. Similarly, in February 2001, Houldsworth learned that AIG wanted to book the second part of the reserve transaction (\$250 million) during the first quarter of 2001. AIG sent CRD a signed contract, with an effective date of March 31, 2001, for that second half of the transaction in October 2001.

In approximately October 2001, Houldsworth and others, following specific instructions from a Gen Re executive to keep the matter confidential, memorialized a procedure

to keep the sham “reserve” contracts between CRD and AIG subsidiary NUFIC locked in an executive’s drawer at CRD’s offices in Dublin, with limited access by others.

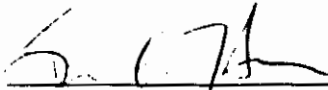
The two sham “reserve” contracts required CRD to pay AIG subsidiary NUFIC \$5 million per contract (\$10 million in total) as a loss transfer payment within thirty days after each contract was executed. However, no money was exchanged until December, 2001. In order to appear to comply with the sham reserve contracts, but still disguise the secret payment terms, AIG did, in fact, enrich a separate contract with Gen Re. Specifically, AIG commuted – or terminated – a contract between Gen Re and another AIG company, called HSB, in such a way that Gen Re was left with an extra \$15.2 million. Gen Re kept \$2.6 million for itself as one-half of AIG’s promised \$5 million fee (plus interest) from the sham reserve transaction. Gen Re then transferred the remaining \$12.6 million to CRD so that CRD could keep \$2.6 million for its half of the fee from AIG and pay AIG subsidiary NUFIC a \$10 million loss transfer payment as required in the sham reserve contracts. Thus, AIG secretly paid Gen Re the \$5 million fee (plus interest) and AIG secretly pre-funded the \$10 million payment from CRD back to AIG subsidiary NUFIC.

DATED: June 2, 2005

Respectfully submitted,

Paul J. McNulty
United States Attorney

Joshua R. Hochberg
Chief, Fraud Section, Criminal Division
U.S. Department of Justice

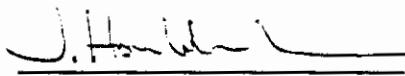
By: 
Thomas A. Harusik
Assistant Chief, Fraud Section

Michael S. Dry
Assistant United States Attorney

Defendant's Stipulation and Signature

After consulting with my attorney and pursuant to the plea and cooperation agreement I entered into this day with the United States, I hereby stipulate that the above statement of facts is true and accurate. I further stipulate that had the matter proceeded to trial, the United States would have proved the same beyond a reasonable doubt.

Date: June 2, 2005


John Houldsworth
Defendant

Defense Counsel's Signature

I am the attorney for defendant John Houldsworth. I have carefully reviewed the above statement of facts with him. To my knowledge, his decision to stipulate to these facts is an informed and voluntary one.

Date:

June 2, 2005 Lawrence Byrne

Lawrence Byrne, Esq.
Counsel to the Defendant